

**REPORT OF THE AUDIT OF THE
WEBSTER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable James R. Townsend, Webster County Judge/Executive

Members of the Webster County Fiscal Court

The enclosed report prepared by Alexander Thompson Arnold PLLC, Certified Public Accountants, presents the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Webster County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements.

We engaged Alexander Thompson Arnold PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Alexander Thompson Arnold PLLC evaluated the Webster County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WEBSTER COUNTY FISCAL COURT

June 30, 2009

Alexander Thompson Arnold PLLC has completed the audit of the Webster County Fiscal Court for fiscal year ended June 30, 2009. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Webster County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$14,832,493 as of June 30, 2009. The fiscal court had total unrestricted net assets of \$1,713,383 as of June 30, 2009. The fiscal court had total debt principal as of June 30, 2009 of \$7,760,000 with \$230,000 due within the next year.

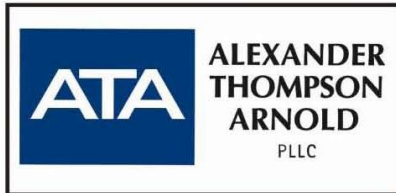
Report Comments:

- 2009-01 Internal Controls Over Capital Assets Should Be Strengthened
- 2009-02 The Webster County Detention Center Had A Lack Of Segregation Of Duties Over Jail Commissary Accounting Functions
- 2009-03 The Webster County Detention Center Should Strengthen Internal Controls Over Capital Assets Of The Jail Commissary
- 2009-04 Inmate Cash Account Should Be Reconciled With The Individual Deposit By Inmate
- 2009-05 Internal Controls Over Cash Disbursements In The Jail Operations Account Should Be Strengthened

Deposits:

As of June 30, 2009, the fiscal court's deposits were insured and collateralized by bank securities.

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

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Members of the Webster County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Webster County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Webster County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Webster County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Webster County, Kentucky, as of June 30, 2009, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Dyersburg, TN
Fulton, KY
Henderson, TN
Jackson, TN
Martin, TN

McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

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Honorable James R. Townsend, Webster County Judge/Executive

Members of the Webster County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Webster County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 7, 2011, on our consideration of Webster County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-01 Internal Controls Over Capital Assets Should Be Strengthened
- 2009-02 The Webster County Detention Center Had A Lack Of Segregation Of Duties Over Jail Commissary Accounting Functions
- 2009-03 The Webster County Detention Center Should Strengthen Internal Controls Over Capital Assets Of The Jail Commissary
- 2009-04 Inmate Cash Account Should Be Reconciled With The Individual Deposit By Inmate
- 2009-05 Internal Controls Over Cash Disbursements In The Jail Operations Account Should Be Strengthened

Respectfully submitted,



Alexander Thompson Arnold PLLC

Certified Public Accountants

March 7, 2011

WEBSTER COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

James R. Townsend	County Judge/Executive
Chad Townsend	Magistrate
Tony Felker	Magistrate
Pete O,nan	Magistrate

Other Elected Officials:

William Clint Prow	County Attorney
Terry Elder	Jailer
Valerie Franklin	County Clerk
Amy Villines	Circuit Court Clerk
Frankie Springfield	Sheriff
Jeffrey Kelley	Property Valuation Administrator
Larry Vanover	Coroner

Appointed Personnel:

Paula K. Guinn	County Treasurer
Janice Hammack	Finance Officer

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WEBSTER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

WEBSTER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 4,365,611	\$ 33,803	\$ 4,399,414
Total Current Assets	<u>4,365,611</u>	<u>33,803</u>	<u>4,399,414</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	3,529,234		3,529,234
Land and Land Improvements	290,965		290,965
Buildings	5,243,476		5,243,476
Vehicles and Equipment	2,316,113	48,479	2,364,592
Infrastructure	<u>6,764,812</u>		<u>6,764,812</u>
Total Noncurrent Assets	<u>18,144,600</u>	<u>48,479</u>	<u>18,193,079</u>
Total Assets	<u>22,510,211</u>	<u>82,282</u>	<u>22,592,493</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	95,000		95,000
Financing Obligations Payable	<u>135,000</u>		<u>135,000</u>
Total Current Liabilities	<u>230,000</u>		<u>230,000</u>
Noncurrent Liabilities:			
Bonds Payable	2,240,000		2,240,000
Financing Obligations Payable	<u>5,290,000</u>		<u>5,290,000</u>
Total Noncurrent Liabilities	<u>7,530,000</u>		<u>7,530,000</u>
Total Liabilities	<u>7,760,000</u>		<u>7,760,000</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	13,031,988	48,479	13,080,467
Restricted For:			
Debt Service	38,643		38,643
Unrestricted	<u>1,679,580</u>	<u>33,803</u>	<u>1,713,383</u>
Total Net Assets	<u>\$ 14,750,211</u>	<u>\$ 82,282</u>	<u>\$ 14,832,493</u>

The accompanying notes are an integral part of the financial statements.

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WEBSTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009

WEBSTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,589,124	\$ 13,979	\$ 1,530,314	\$ 68,300
Protection to Persons and Property	1,744,993	1,194,844	374,077	31,278
General Health and Sanitation	953,761	166,312	697,188	248,845
Social Services	139,664	810	129,756	
Recreation and Culture	12,156		2,903	
Roads	1,175,277	134,743	1,106,780	43,610
Airports	1,700		1,700	
Debt Service	274,609			
Total Governmental Activities	6,891,284	1,510,688	3,842,718	392,033
Business-type Activities:				
Jail Canteen	90,225	83,479		
Total Business-type Activities	90,225	83,479		
Total Primary Government	\$ 6,981,509	\$ 1,594,167	\$ 3,842,718	\$ 392,033

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes

In Lieu of Tax Payments
Gain on Sale of Assets
Miscellaneous Revenues
Interest Received

Total General Revenues

Change in Net Assets
Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

WEBSTER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (976,531)	\$	\$ (976,531)
(144,794)		(144,794)
158,584		158,584
(9,098)		(9,098)
(9,253)		(9,253)
109,856		109,856
(274,609)		(274,609)
(1,145,845)		(1,145,845)
	(6,746)	(6,746)
	(6,746)	(6,746)
(1,145,845)	(6,746)	(1,152,591)
595,181		595,181
211,565		211,565
136,386		136,386
305,584		305,584
22,250		22,250
10,187		10,187
117,299		117,299
171,418	561	171,979
1,569,870	561	1,570,431
424,025	(6,185)	417,840
14,326,186	88,467	14,414,653
14,750,211	82,282	14,832,493

The accompanying notes are an integral part of the financial statements.

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WEBSTER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

WEBSTER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Jail Expansion Construction Fund
ASSETS					
Cash and Cash Equivalents	\$ 1,076,716	\$ 292,708	\$ 18,409	\$ 261,152	\$ 2,647,388
Total Assets	<u>\$ 1,076,716</u>	<u>\$ 292,708</u>	<u>\$ 18,409</u>	<u>\$ 261,152</u>	<u>\$ 2,647,388</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 446	\$ 16,201	\$ 12,055	\$ 340	\$ 269,921
Debt Service					
Unreserved:					
General Fund	1,076,270				
Special Revenue Funds		276,507	6,354	260,812	
Capital Projects Funds					2,377,467
Debt Service Funds					
Total Fund Balances	<u>\$ 1,076,716</u>	<u>\$ 292,708</u>	<u>\$ 18,409</u>	<u>\$ 261,152</u>	<u>\$ 2,647,388</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 4,365,611
Amounts Reported for Governmental Activities in the Statement of Net Assets are different because:	
Capital Assets Used in Governmental Activities are not Financial Resources and therefore are not Reported in the Funds.	25,972,810
Accumulated Depreciation	(7,828,210)
Long-term Debt is not Due and Payable in the Current Period and, therefore, is not Reported in the Funds.	
Financing Obligations	(5,425,000)
Bonds	(2,335,000)
Net Assets of Governmental Activities	<u>\$ 14,750,211</u>

The accompanying notes are an integral part of the financial statements.

WEBSTER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2009
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 69,238</u>	<u>\$ 4,365,611</u>
<u>\$ 69,238</u>	<u>\$ 4,365,611</u>
\$ 38,643	\$ 298,963
	38,643
	1,076,270
30,578	574,251
	2,377,467
<u>17</u>	<u>17</u>
<u>\$ 69,238</u>	<u>\$ 4,365,611</u>

The accompanying notes are an integral part of the financial statements.

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WEBSTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

WEBSTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 1,352,119	\$	\$	\$
In Lieu Tax Payments	22,250			
Excess Fees	13,400			
Licenses and Permits	9,530			1,110
Intergovernmental	1,421,464	1,054,649	987,103	1,071,271
Charges for Services	3,110		64,181	173
Miscellaneous	34,054	274,911	59,878	46,012
Interest	34,018	17,446	2,805	4,830
Total Revenues	<u>2,889,945</u>	<u>1,347,006</u>	<u>1,113,967</u>	<u>1,123,396</u>
EXPENDITURES				
General Government	1,506,877			
Protection to Persons and Property	558,299		1,093,698	163,606
General Health and Sanitation	248,798			480,162
Social Services				129,756
Recreation and Culture	8,618			2,903
Roads	76,017	1,089,917		95,741
Airports				1,700
Debt Service		208,171	268,569	249,563
Capital Projects			2,627,475	
Administration	683,743	151,925	195,393	48,005
Total Expenditures	<u>3,082,352</u>	<u>1,450,013</u>	<u>4,185,135</u>	<u>1,171,436</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(192,407)</u>	<u>(103,007)</u>	<u>(3,071,168)</u>	<u>(48,040)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	150,000		3,055,412	150,000
Transfers To Other Funds	(645,544)			(150,000)
Total Other Financing Sources (Uses)	<u>(495,544)</u>		<u>3,055,412</u>	
Net Change in Fund Balances	(687,951)	(103,007)	(15,756)	(48,040)
Fund Balances - Beginning	1,764,667	395,715	34,165	309,192
Fund Balances - Ending	<u>\$ 1,076,716</u>	<u>\$ 292,708</u>	<u>\$ 18,409</u>	<u>\$ 261,152</u>

The accompanying notes are an integral part of the financial statements.

WEBSTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Jail Expansion Construction Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 1,352,119
		22,250
		13,400
		10,640
	636,456	5,170,943
	137,004	204,468
		414,855
115,348	1,803	176,250
115,348	775,263	7,364,925
	78,143	1,585,020
	271,293	2,086,896
	214,986	943,946
		129,756
		11,521
		1,261,675
		1,700
	200,169	926,472
		2,627,475
	12,531	1,091,597
	777,122	10,666,058
115,348	(1,859)	(3,301,133)
		3,355,412
(2,559,868)		(3,355,412)
(2,559,868)		
(2,444,520)	(1,859)	(3,301,133)
5,091,908	71,097	7,666,744
\$ 2,647,388	\$ 69,238	\$ 4,365,611

The accompanying notes are an integral part of the financial statements.

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**WEBSTER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

WEBSTER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (3,301,133)
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Amounts Reported for Governmental Activities in the Statement of Activities are Different because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets are allocated over their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	3,929,275
Depreciation Expense	(799,203)
Assets Disposed of, Net Book Value	(49,614)

The Issuance of Long-term Debt (e.g. Bonds, Financing Obligations) provides Current Financial Resources to Governmental Funds, while Repayment of Principal on Long-term Debt consumes the Current Financial Resources of Governmental Funds. These Transactions, however, have no Effect on Net Assets.

Financing Obligations Payments	554,700
Bond Payments	90,000

Change in Net Assets of Governmental Activities	\$ 424,025
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WEBSTER COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

WEBSTER COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 33,803
Total Current Assets	<u>33,803</u>
Noncurrent Assets:	
Capital Assets, net of Accumulated Depreciation:	
Vehicles and Equipment	<u>48,479</u>
Total Noncurrent Assets	<u>48,479</u>
Total Assets	<u>82,282</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	48,479
Unrestricted	<u>33,803</u>
Total Net Assets	<u>\$ 82,282</u>

The accompanying notes are an integral part of the financial statements.

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WEBSTER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

WEBSTER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 83,479
Total Operating Revenues	<u>83,479</u>
Operating Expenses	
Cost of Sales	68,735
Educational and Recreational	2,696
Shop expenses	6,249
Depreciation	<u>12,545</u>
Total Operating Expenses	<u>90,225</u>
Operating Income (Loss)	<u>(6,746)</u>
Nonoperating Revenues (Expenses)	
Interest Income	<u>561</u>
Total Nonoperating Revenues (Expenses)	<u>561</u>
Change in Net Assets	(6,185)
Total Net Assets - Beginning	<u>88,467</u>
Total Net Assets - Ending	<u><u>\$ 82,282</u></u>

The accompanying notes are an integral part of the financial statements.

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WEBSTER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

WEBSTER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Receipts From Customers for Sales	\$ 83,479
Cash Payments to Vendors	(77,680)
Net Cash Provided By for Supplies	
Operating Activities	<u>5,799</u>
Cash Flows From Investing Activities	
Interest Earned	<u>561</u>
Net Cash Provided By	
Investing Activities	<u>561</u>
Net Increase (Decrease) in Cash and Cash	
Equivalents	6,360
Cash and Cash Equivalents - July 1	<u>27,443</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 33,803</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ (6,746)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used)	
By Operating Activities	
Depreciation Expense	<u>12,545</u>
Net Cash Provided By Operating Activities	<u><u>\$ 5,799</u></u>

The accompanying notes are an integral part of the financial statements.

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WEBSTER COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

WEBSTER COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	<u>Agency Fund</u> <u>Inmate</u> <u>Account</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 11,453
Total Assets	<u>11,453</u>
Liabilities	
Amounts Held In Custody For Others	<u>11,453</u>
Total Liabilities	<u>\$ 11,453</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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WEBSTER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets, and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Webster County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority and participate in fiscal management and the scope of public service. Consequently, the reporting entity includes no organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

WEBSTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Webster County Public Properties Corporation

The Board of Directors of the Webster County Public Properties Corporation is the Webster County Fiscal Court. The Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 to act as an agent in the acquisition and financing of any public project and cannot be sued in its own name without recourse to Webster County Fiscal Court. The Fiscal Court has access to the Corporation's resources and is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within the financial statements of the County as the Debt Service Fund.

C. Webster County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Webster County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These officials are not part of the Webster County reporting entity.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods and services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

WEBSTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government and payments from other counties for housing prisoners. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – The primary purpose of this fund is to account for grants received from the Department for Local Government for specific line items and coal severance.

Jail Expansion Construction Fund – The primary purpose of this fund is to account of the construction costs of the Webster County Jail Expansion.

WEBSTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The primary government also has the following non-major funds: State Grants Fund, Sanitation Fund, Sanitation Replacement Reserve Fund, and Public Properties Bond Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, State Grants Fund, and Sanitation Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Jail Expansion Construction Fund is presented as a Capital Projects Fund and is used to account for construction costs for the Webster County Jail Expansion.

Debt Service Fund:

The Public Properties Bond Fund and the Sanitation Replacement Reserve Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

WEBSTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Fiduciary Funds (Continued)

The primary government reports the following fiduciary fund:

Jail Inmate Fund - This fund accounts for monies received for inmates and held until inmate use.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings and Building Improvements	\$ 5,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 5,000	10-50

WEBSTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting according to the laws of Kentucky as required by the State Local Finance Officer. The State Local Finance Officer does not require formal budgets to be adopted for the Jail Canteen Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

WEBSTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Based upon these criteria, the following are considered to be joint ventures of the Webster County Fiscal Court:

Tri-County Recycling - The Webster County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility to Tri-County Recycling. Tri-County Recycling is a joint venture between the Fiscal Court, Union County, Henderson County and the City of Henderson to provide recycling opportunities for each county. Each participant on a pro-rata basis pays the costs associated with Tri-County Recycling. During the fiscal year 2009, the Fiscal Court paid Tri-County Recycling \$14,767.

West Kentucky Regional Industrial Authority - The Webster County Fiscal Court (Fiscal Court), McLean County, the City of Henderson, and the City of Henderson Water and Sewer Commission belong to the West Kentucky Regional Industrial Authority. Each has agreed to supplement the City of Henderson Water and Sewer Commission's debt service on the Water and Wastewater Treatment Facility in southern Henderson County on an equal basis should the excess revenues generated by the facility be less than the amount necessary to fund the debt service required for the related facility. The Fiscal Court incurred no expense for the fiscal year 2009.

Regional Economic Development Corporation - The Webster County Fiscal Court (Fiscal Court) has retained an ongoing financial interest in the Regional Economic Development Corporation (REDC). The REDC is a joint venture between the Fiscal Court and McLean, Union, and Henderson County Fiscal Courts for the purpose of promoting economic development activities in such counties.

Note 2. Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial Credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral agreement. However, as of August 31, 2008, the FDIC insurance and properly executed collateral agreements did not equal or exceed deposits, leaving \$1,326,705 exposed to custodial credit risk. This issue was corrected by June 30, 2009.

WEBSTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Interfund Transactions

The table below shows the interfund operating transfers for fiscal year 2009.

<u>Governmental Activities</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net</u>
General Fund	\$ 150,000	\$ 645,544	\$ (495,544)
Jail Fund	3,055,412		3,055,412
LGEA Fund	150,000	150,000	
Jail Expansion Construction Fund		2,559,868	(2,559,868)
Total Governmental Funds	<u>\$ 3,355,412</u>	<u>\$ 3,355,412</u>	<u>\$</u>

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 193,826	\$ 15,015	\$	\$ 208,841
Construction In Progress	901,949	2,627,285		3,529,234
Total Capital Assets Not Being Depreciated	<u>1,095,775</u>	<u>2,642,300</u>		<u>3,738,075</u>
Capital Assets, Being Depreciated:				
Land Improvements	175,395			175,395
Buildings	6,898,309	76,335	(26,816)	6,947,828
Vehicles	1,732,184	512,347	(92,368)	2,152,163
Equipment	1,943,251	522,626	(191,802)	2,274,075
Infrastructure	10,509,607	175,667		10,685,274
Total Capital Assets Being Depreciated	<u>21,258,746</u>	<u>1,286,975</u>	<u>(310,986)</u>	<u>22,234,735</u>
Less Accumulated Depreciation For:				
Land Improvements	(82,605)	(10,666)		(93,271)
Buildings	(1,584,911)	(143,575)	24,134	(1,704,352)
Vehicles	(983,272)	(148,971)	87,868	(1,044,375)
Equipment	(1,028,940)	(186,180)	149,370	(1,065,750)
Infrastructure	(3,610,651)	(309,811)		(3,920,462)
Total Accumulated Depreciation	<u>(7,290,379)</u>	<u>(799,203)</u>	<u>261,372</u>	<u>(7,828,210)</u>
Total Capital Assets, Being Depreciated, Net	<u>13,968,367</u>	<u>487,772</u>	<u>(49,614)</u>	<u>14,406,525</u>
Governmental Activities Capital Assets, Net	<u>\$ 15,064,142</u>	<u>\$ 3,130,072</u>	<u>\$ (49,614)</u>	<u>\$ 18,144,600</u>

WEBSTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles	\$ 54,516	\$	\$	\$ 54,516
Equipment	19,400			19,400
Total Capital Assets Being Depreciated	73,916			73,916
Less Accumulated Depreciation For:				
Vehicles	(9,165)	(10,103)		(19,268)
Equipment	(3,727)	(2,442)		(6,169)
Total Accumulated Depreciation	(12,892)	(12,545)		(25,437)
Total Capital Assets, Being Depreciated, Net	61,024	(12,545)		48,479
Business-Type Activities Capital Assets, Net	<u>\$ 61,024</u>	<u>\$ (12,545)</u>	<u>\$</u>	<u>\$ 48,479</u>

Depreciation expense was charged to functions of the government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 115,249
Protection to Persons and Property	169,367
General Health and Sanitation	48,817
Social Services	9,908
Recreation and Culture	636
Roads, Including Depreciation of General Infrastructure Assets	<u>455,226</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 799,203</u>
<u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 12,545</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 12,545</u>

WEBSTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt

A. First Mortgage Revenue Bonds (Judicial Center Project), Series 2002

The Webster County Public Properties Corporation (Corporation), an agency and instrumentality of the Fiscal Court, issued First Mortgage Revenue Bonds (Judicial Center Project), Series 2002; dated July 1, 2002 and payable in 23 annual installments beginning February 1, 2003, with the semi-annual interest payments at rates ranging from 2.15% to 5.00%.

The Corporation, the County, and the State Administrative Office of the Courts (AOC) have entered into a lease agreement, dated July 1, 2002, wherein the AOC shall lease from the Corporation, the Project and the Project Site in which a rental amount will be assigned by the Corporation to the Bond Trustee. The annual rental is expected to be adequate to pay 100% of the net debt service on the Bonds. The maximum use allowance is \$208,610 per year. The AOC has the option to renew the lease each July 1 of each even numbered year.

Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 95,000	\$ 106,912
2011	100,000	103,303
2012	105,000	99,452
2013	105,000	95,305
2014	110,000	91,053
2015-2019	635,000	379,960
2020-2024	805,000	217,068
2025-2026	380,000	28,750
Totals	<u>\$ 2,335,000</u>	<u>\$ 1,121,803</u>

WEBSTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

B. Patcher Truck

On March 25, 2005, the County entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding for a patcher truck in the amount of \$100,000 at various interest rates for a period of 5 years, with principal and interest paid annually.

Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2010	\$ 20,000	\$ 624
2011	15,000	48
Totals	<u>\$ 35,000</u>	<u>\$ 672</u>

C. Webster County Detention Center Expansion

On February 14, 2008, the Webster County Fiscal Court entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of the construction and expansion of the Webster County Detention Center. The principal amount of \$5,500,000 will be repaid in 360 monthly payments with interest at 3.809%.

Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 115,000	\$ 206,274
2011	115,000	215,315
2012	120,000	210,880
2013	125,000	205,611
2014	130,000	200,434
2015-2019	725,000	887,587
2020-2024	875,000	756,155
2025-2029	1,045,000	561,132
2030-2034	1,260,000	327,475
2035-2037	880,000	64,271
Totals	<u>\$ 5,390,000</u>	<u>\$ 3,635,134</u>

WEBSTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Long-term Debt (Continued)

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 2,425,000	\$	\$ (90,000)	\$ 2,335,000	\$ 95,000
Financing Obligations	5,979,700		(554,700)	5,425,000	135,000
Governmental Activities					
Long-term Liabilities	<u>\$ 8,404,700</u>	<u>\$</u>	<u>\$ (644,700)</u>	<u>\$ 7,760,000</u>	<u>\$ 230,000</u>

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$164,440 in interest on financing obligations and \$110,169 in interest on bonds.

Note 7. Commitments and Contingencies

A. Industrial Revenue Bonds

The Webster County Fiscal Court has adopted ordinances approving the issuance of Industrial Revenue Bonds. Such Bond issues do not constitute a general debt, liability, or moral obligation of Webster County. Accordingly, these financial statements do not include any assets or liabilities related to the issuance of these bond issues.

B. Solid Waste Interlocal Agreement

Webster County entered into an interlocal agreement with Union and Henderson Counties and Cities of Henderson and Corydon establishing a Solid Waste Recycling Facility and Program for these areas. All parties have agreed to fund the operational expense of this organization. The county is responsible for 19.50% of the Solid Waste Recycling Facility and Program operating expenses. Expenses incurred under this agreement for the fiscal year ended June 30, 2009, were \$14,767.

C. Interlocal Tri-County New Water and Wastewater Treatment Facility

The County of Webster entered into an interlocal agreement with the Counties of Henderson, Webster, and McLean, the City of Henderson, and the City of Henderson Water and Sewer Commission, to which the local governments agree to supplement the City of Henderson Water and Sewer Commission's debt service on the Water and Wastewater Treatment Facility in southern Henderson County on an equal basis should the excess revenues generated by the facility be less than the amount necessary to fund the debt service required for the related facility. The County had no expenses related to this agreement for fiscal year ended 2009.

WEBSTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Commitments and Contingencies (Continued)

D. West Kentucky Regional Industrial Development Authority - Kenergy Loan Guarantee

Webster County in conjunction with Henderson, Union and McLean Counties issued an ordinance which guarantees a portion of the \$450,000, zero-interest rural development loan to Kenergy from the West Kentucky Regional Industrial Development Authority to assist in promoting development of the 4 Star Industrial Park. Webster County authorized a guarantee of \$150,000. Henderson County also guaranteed \$150,000 and Union and McLean Counties each guaranteed \$75,000.

E. Regional Economic Development Corporation

The Webster County Fiscal Court (Fiscal Court) has retained an ongoing financial interest in the Regional Economic Development Corporation (REDC). The REDC is a joint venture between the Fiscal Court and McLean, Union, and Henderson County Fiscal Courts for the purpose of promoting economic development activities in such counties.

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

The county's contribution for FY 2008 was \$299,025 and FY 2009 was \$262,292.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

WEBSTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 8. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Deferred Compensation

In March, 1990, the Webster County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school, and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2009, Webster County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2003 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. The estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Infrastructure placed in service during the fiscal year ended June 30, 2003 and thereafter is recorded at historical cost.

WEBSTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

WEBSTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

GENERAL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,179,795	\$ 1,179,795	\$ 1,352,119	\$ 172,324
In Lieu Tax Payments	21,057	21,057	22,250	1,193
Excess Fees	13,064	13,064	13,400	336
Licenses and Permits	9,530	9,530	9,530	
Intergovernmental Revenue	1,250,404	1,250,404	1,421,464	171,060
Charges for Services	2,502	2,502	3,110	608
Miscellaneous	11,825	11,825	34,054	22,229
Interest	31,996	31,996	34,018	2,022
Total Revenues	<u>2,520,173</u>	<u>2,520,173</u>	<u>2,889,945</u>	<u>369,772</u>
EXPENDITURES				
General Government	1,736,701	1,706,001	1,506,877	199,124
Protection to Persons and Property	473,458	764,208	558,299	205,909
General Health and Sanitation	104,959	289,359	248,798	40,561
Recreation and Culture	3,500	9,050	8,618	432
Roads		76,200	76,017	183
Administration	724,182	697,982	683,743	14,239
Total Expenditures	<u>3,042,800</u>	<u>3,542,800</u>	<u>3,082,352</u>	<u>460,448</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(522,627)</u>	<u>(1,022,627)</u>	<u>(192,407)</u>	<u>830,220</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			150,000	150,000
Transfers To Other Funds	(803,700)	(803,700)	(645,544)	158,156
Total Other Financing Sources (Uses)	<u>(803,700)</u>	<u>(803,700)</u>	<u>(495,544)</u>	<u>308,156</u>
Net Changes in Fund Balance	(1,326,327)	(1,826,327)	(687,951)	1,138,376
Fund Balance - Beginning	<u>1,326,327</u>	<u>1,326,327</u>	<u>1,764,667</u>	<u>438,340</u>
Fund Balance - Ending	<u>\$</u>	<u>\$ (500,000)</u>	<u>\$ 1,076,716</u>	<u>\$ 1,576,716</u>

WEBSTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,043,607	\$ 1,043,607	\$ 1,054,649	\$ 11,042
Miscellaneous	319,910	319,910	274,911	(44,999)
Interest	14,658	14,658	17,446	2,788
Total Revenues	<u>1,378,175</u>	<u>1,378,175</u>	<u>1,347,006</u>	<u>(31,169)</u>
EXPENDITURES				
Roads	1,149,319	1,198,819	1,089,917	108,902
Debt Service	232,258	232,258	208,171	24,087
Administration	156,982	157,482	151,925	5,557
Total Expenditures	<u>1,538,559</u>	<u>1,588,559</u>	<u>1,450,013</u>	<u>138,546</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(160,384)</u>	<u>(210,384)</u>	<u>(103,007)</u>	<u>107,377</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>60,384</u>	<u>60,384</u>		<u>(60,384)</u>
Total Other Financing Sources (Uses)	<u>60,384</u>	<u>60,384</u>		<u>(60,384)</u>
Net Changes in Fund Balance	(100,000)	(150,000)	(103,007)	46,993
Fund Balance - Beginning	<u>100,000</u>	<u>100,000</u>	<u>395,715</u>	<u>295,715</u>
Fund Balance - Ending	<u>\$</u>	<u>\$ (50,000)</u>	<u>\$ 292,708</u>	<u>\$ 342,708</u>

WEBSTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 873,344	\$ 873,344	\$ 987,103	\$ 113,759
Charges for Services	55,975	55,975	64,181	8,206
Miscellaneous	48,770	48,770	59,878	11,108
Interest	2,015	2,015	2,805	790
Total Revenues	980,104	980,104	1,113,967	133,863
EXPENDITURES				
Protection to Persons and Property	1,130,576	1,199,476	1,093,698	105,778
Debt Service	311,650	311,650	268,569	43,081
Capital Projects	5,186,680	5,186,680	2,627,475	2,559,205
Administration	301,194	232,294	195,393	36,901
Total Expenditures	6,930,100	6,930,100	4,185,135	2,744,965
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(5,949,996)	(5,949,996)	(3,071,168)	2,878,828
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	5,929,996	5,929,996	3,055,412	(2,874,584)
Total Other Financing Sources (Uses)	5,929,996	5,929,996	3,055,412	(2,874,584)
Net Changes in Fund Balance	(20,000)	(20,000)	(15,756)	4,244
Fund Balance - Beginning	20,000	20,000	34,165	14,165
Fund Balance - Ending	\$	\$	\$ 18,409	\$ 18,409

WEBSTER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Licenses and Permits	\$ 796	\$ 796	\$ 1,110	\$ 314
Intergovernmental Revenue	700,249	700,249	1,071,271	371,022
Charges for Services			173	173
Miscellaneous	273,053	273,053	46,012	(227,041)
Interest	5,970	5,970	4,830	(1,140)
Total Revenues	980,068	980,068	1,123,396	143,328
EXPENDITURES				
Protection to Persons and Property	13,500	163,700	163,606	(94)
General Health and Sanitation	537,547	542,947	480,162	(62,785)
Social Services	151,695	151,945	129,756	(22,189)
Recreation and Culture	2,750	3,000	2,903	(97)
Roads	242,753	242,753	95,741	(147,012)
Airports	1,700	1,700	1,700	
Debt Service	250,374	250,374	249,563	(811)
Administration	55,919	59,819	48,005	11,814
Total Expenditures	1,256,238	1,416,238	1,171,436	(221,174)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(276,170)	(436,170)	(48,040)	(77,846)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			150,000	150,000
Transfers To Other Funds			(150,000)	(150,000)
Total Other Financing Sources (Uses)				
Net Changes in Fund Balances	(276,170)	(436,170)	(48,040)	388,130
Fund Balances - Beginning	276,170	276,170	309,192	33,022
Fund Balances - Ending	\$	\$ (160,000)	\$ 261,152	\$ 421,152

WEBSTER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Expenditures in Excess of Final Budget

LGEA fund expenditures exceeded final budgeted appropriations by \$221,174 for the year ended June 30, 2009.

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**WEBSTER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2009

WEBSTER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	State Grants Fund	Sanitation Fund	Sanitation Replacement Reserve Fund	Public Properties Bond Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 22,470	\$ 8,108	\$ 38,643	\$ 17	\$ 69,238
Total Assets	<u>\$ 22,470</u>	<u>\$ 8,108</u>	<u>\$ 38,643</u>	<u>\$ 17</u>	<u>\$ 69,238</u>
FUND BALANCES					
Reserved:					
Debt Service Funds	\$	\$	\$ 38,643	\$	\$ 38,643
Unreserved:					
Special Revenue Funds	22,470	8,108			30,578
Debt Service Funds				17	17
Total Fund Balances	<u>\$ 22,470</u>	<u>\$ 8,108</u>	<u>\$ 38,643</u>	<u>\$ 17</u>	<u>\$ 69,238</u>

The accompanying notes are an integral part of the financial statements.

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WEBSTER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009

WEBSTER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	State Grants Fund	Sanitation Fund	Sanitation Replacement Reserve Fund	Public Properties Bond Fund	Total Non-Major Governmental Funds
REVENUES					
Intergovernmental	\$ 436,637	\$	\$	\$ 199,819	\$ 636,456
Charges for Services		137,004			137,004
Interest	564	406	833		1,803
Total Revenues	<u>437,201</u>	<u>137,410</u>	<u>833</u>	<u>199,819</u>	<u>775,263</u>
EXPENDITURES					
General Government	78,143				78,143
Protection to Persons and Property	271,293				271,293
General Health and Sanitation	85,720	129,266			214,986
Debt Service				200,169	200,169
Administration		10,522		2,009	12,531
Total Expenditures	<u>435,156</u>	<u>139,788</u>	<u></u>	<u>202,178</u>	<u>777,122</u>
Excess (Deficiency) of Revenues Expenditures	<u>2,045</u>	<u>(2,378)</u>	<u>833</u>	<u>(2,359)</u>	<u>(1,859)</u>
Net Change in Fund Balances	2,045	(2,378)	833	(2,359)	(1,859)
Fund Balances - Beginning	20,425	10,486	37,810	2,376	71,097
Fund Balances - Ending	<u>\$ 22,470</u>	<u>\$ 8,108</u>	<u>\$ 38,643</u>	<u>\$ 17</u>	<u>\$ 69,238</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



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AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

The Honorable James R. Townsend, Webster County Judge/Executive
Members of the Webster County Fiscal Court

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Webster County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 7, 2011. Webster County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Webster County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Webster County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Webster County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations as 2009-01, 2009-02, 2009-03, 2009-04, and 2009-05, to be significant deficiencies in internal control over financial reporting.

Dyersburg, TN
Fulton, KY
Henderson, TN
Jackson, TN
Martin, TN

McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Webster County Fiscal Court's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Webster County Judge/Executive's responses and the Webster County Jailer's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit their responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Alexander Thompson Arnold PLLC
Certified Public Accountants

March 7, 2011

**WEBSTER COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2009

**WEBSTER COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

2009-01 Internal Controls Over Capital Assets Should Be Strengthened

Review of internal control procedures, along with audit testing, revealed significant deficiencies in internal controls over the capital asset listing/depreciation schedule.

Strong internal controls over capital assets include maintaining accurate records of the depreciation taken currently as well as the accumulated amounts.

Because of this, we recommend the County strengthen its internal control procedures over capital assets, specifically maintenance of the depreciation schedule. We recommend that you consider commercially available fixed asset software for this purpose.

In order to strengthen the county's internal controls over capital assets and infrastructure, we recommend the county establish a detailed inventory system. This system should include a detailed description of the asset, an inventory control number or serial number, the date acquired, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are purchased. It should also be updated as to annual depreciation and accumulated depreciation amounts and current year disposals. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's list of inventoried assets. This inventory should be maintained at historical cost.

County Judge/Executive James Townsend's Response: The County is looking into a fixed asset program. Inventory is updated and reviewed annually.

2009-02 The Webster County Detention Center Had A Lack Of Segregation Of Duties Over Jail Commissary Accounting Functions

During a review of jail operations, we noted a lack of segregation of duties over the jail operations accounting functions and jail commissary accounting functions which is a material weakness. The administrative assistant collected receipts for inmate fees, prepared deposits, made deposits, prepared monthly reports, remitted monthly reports and inmate fees to the county treasurer and reconciled the commissary bank account. There were no compensating controls noted to offset this lack of segregation of duties.

Segregation of duties over the collection of receipts, deposit preparation, bank reconciliations, and other accounting functions or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

WEBSTER COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2009
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES
(Continued):

2009-02 The Webster County Detention Center Had A Lack Of Segregation Of Duties Over Jail Commissary Accounting Functions (Continued)

To adequately prevent the misappropriation of assets, we recommend the Jailer separate the duties of collecting receipts, deposit preparation, bank reconciliations, and other accounting functions. If these duties cannot be separated due to a limited staff, then strong oversight should be provided to the employee or employees responsible for these duties.

County Jailer Terry Elder's Response: We are now having 1 person collecting while another prepares the deposit. Also, the bank reconciliation is verified by 2 people and checked off on by the Jailer.

2009-03 The Webster County Detention Center Should Strengthen Internal Controls Over Capital Assets Of The Jail Commissary

Review of internal control procedures, along with audit testing, revealed material weaknesses in internal controls over capital assets owned by the Jail Commissary Fund in that no depreciation schedule is maintained.

A list of capital assets as well as the current and accumulated depreciation on those assets should be maintained to support the capital asset and depreciation expense amounts as well as enhance accountability for the assets.

Because of this, we recommend that the Jailer maintain a capital asset depreciation schedule for all assets reported by the Jail Commissary Fund.

County Jailer Terry Elder's Response: We are working with the County Treasurer to get this schedule maintained.

2009-04 Inmate Cash Account Should Be Reconciled With The Individual Deposit By Inmate

While testing the bank accounts and the individual deposit records by inmate, it was noted that the jail was not reconciling the two amounts against each other which is a significant deficiency. The cash maintained in the Jail Inmate bank account is money held in trust by the County and should match to the detail deposit records by inmate.

Strong internal controls over inmate funds are essential to protect assets from misappropriation or fraud. Strong internal controls also facilitate accurate financial reporting as well as protect employees during the normal course of their duties.

Because of this, we recommend the Jailer reconcile the Jail Inmate bank account with the detailed deposit records by inmate. The implementation of such controls will not only help protect the assets held in trust for the inmates, but also will protect the County from any perceived misappropriation.

County Jailer Terry Elder's Response: We plan to work with our software company to get this issue resolved.

WEBSTER COUNTY
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2009
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES
(Continued):

2009-05 Internal Controls Over Cash Disbursements In The Jail Operations Account Should Be Strengthened

While testing bank reconciliations in the jail operations account we noted that the bank reconciliations maintained on the account consisted of an auxiliary record in excel of bank activity and the bank reconciliation did not agree with the activity of the bank account maintained in the jail operations software. We consider this to be a significant deficiency.

The amount of the discrepancies were immaterial and are likely timing issues in the recording of transactions. However, the cash balances should be reconciled precisely.

Because of this, we recommend the Jailer institute changes in the accounting system to ensure precise bank reconciliations are prepared each month. We believe that additional training on the software used for the jail operation may help resolve this.

County Jailer Terry Elder's Response: We have training scheduled for April 20-21 with our software company.

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**CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

WEBSTER COUNTY FISCAL COURT

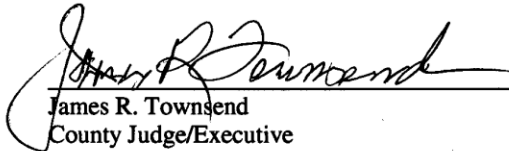
For The Fiscal Year Ended June 30, 2009

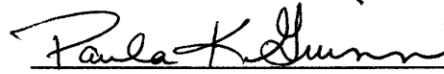
**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

WEBSTER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2009**

The Webster County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Standards


James R. Townsend
County Judge/Executive


Paula K. Guinn
County Treasurer

